New York City Transitional Finance Authority, New York

New Issue Report

Ratings

State of New York Long-Term Issuer Default Rating	AA+
New Issue	
$500,000,000 New York City Transitional Finance Authority Building Aid Revenue Bonds, Fiscal 2018 Series S-3 Tax-Exempt Bonds	AA
$500,920,000 New York City Transitional Finance Authority Building Aid Revenue Bonds, Fiscal 2018 Subseries S-4A Tax-Exempt Bonds	AA
$73,115,000 New York City Transitional Finance Authority Building Aid Revenue Bonds, Fiscal 2018 Subseries S-4B Taxable Bonds	AA
Outstanding Debt	
New York City Transitional Finance Authority Building Aid Revenue Bonds	AA

Rating Outlook

Stable

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New Issue Summary

Sale Date: The tax-exempt bonds are scheduled to be offered by negotiated sale during the week of March 12 and the taxable bonds by competitive sale on March 14. The issuance of the fiscal 2018 series S-3 and S-4 bonds does not affect the 'AAA' rating on the TFA's future tax-secured bonds.

Series: $500,000,000 New York City Transitional Finance Authority (TFA) Building Aid Revenue Bonds, Fiscal 2018 Series S-3 Tax-Exempt Bonds; $500,920,000 New York City Transitional Finance Authority Building Aid Revenue Bonds, Fiscal 2018 Subseries S-4A Tax-Exempt Bonds; $73,115,000 New York City Transitional Finance Authority Building Aid Revenue Bonds, Fiscal 2018 Subseries S-4B Taxable Bonds.

Purpose: To finance the cost of school capital needs and to refund outstanding bonds.

Security: Payable from annual New York State appropriations of building aid to New York City.

Analytical Conclusion

Building aid revenue bonds, which are rated one notch below New York State's 'AA+' Issuer Default Rating (IDR), are payable from annual state appropriations of building aid. State building aid assists local school districts across the state with the cost of constructing and improving elementary and secondary education facilities.

Appropriation risk is minimal, given the constitutional mandate for, and strong history of, state support for education. Moreover, the additional bonds test (ABT) only considers aid associated with projects that have already been approved by the State of New York, even though aid related to additional projects that will be approved by the state in the future is also pledged to the bonds.

Key Rating Drivers

Link to New York State Credit: School building aid that secures the bonds requires annual state legislative appropriation. Therefore, the rating is linked to the credit quality of the State of New York, reflected in the 'AA+' IDR and Stable Rating Outlook assigned by Fitch Ratings.

Strong State Support of Education: Appropriation risk is minimal, given the constitutional mandate for, and strong history of, state support for education.

Structural Protections Strengthen Credit: The ABT relies only on projects that already have been approved, although revenue related to future projects also is pledged. Monies for debt service are retained in the city fiscal year prior to the year in which the debt service is due.

Rating Sensitivities

State's General Credit Quality: The rating on New York City TFA building aid revenue bonds is sensitive to changes in New York State's 'AA+' IDR, to which it is linked.

Material Change to State Education Funding: The rating is also sensitive to any future change in New York State's funding of school building aid that materially weakens the revenues payable to building aid revenue bonds.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	3/6/18
AA+	Affirmed	Stable	7/14/17
AA+	Assigned	Stable	4/25/16

Rating History (TFA Building Aid Revenue Bonds)

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	3/6/18
AA	Upgraded	Stable	6/20/14
AA–	Revised	Positive	5/31/11
AA–	Revised	Stable	4/5/10
A+	Revised	Stable	10/22/08
A+	Revised	Positive	5/11/07
A+	Assigned	—	10/19/06

Related Research

Fitch Rates New York City TFA's $1.1 Billion Building Aid Revs 'AA'; Outlook Stable (March 2018)

State of New York (March 2018)

Fitch 2018 Outlook: U.S. States (Federal Uncertainty and Revenue Sluggishness Heighten Challenges (December 2017)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2017)

Credit Profile

Building aid revenue bonds are issued by the New York City TFA, although their credit quality is linked to the State of New York. In the 2006 state legislative session, the TFA was authorized to issue an amount up to $9.4 billion outstanding for education; $7.5 billion in building aid revenue bonds is currently outstanding. As permitted by the legislation, the city assigned all of its state building aid to the TFA to secure the bonds. TFA also issues separate future tax-secured bonds under senior and subordinate liens on behalf of New York City capital needs, which are rated 'AAA' by Fitch.

State building aid, which is earned on an individual project basis, consists of confirmed building aid and incremental building aid. Confirmed building aid refers to aid payable for projects that have already been approved by the state. Such aid is subject to annual state appropriation but is not subject to any additional statutory or administrative conditions or approvals. The state has covenanted that the calculation of reimbursable costs for a project will not change once the project has been approved. The level of reimbursement can change over time pursuant to a statewide formula that is calculated every year, but this ratio has shifted only gradually over time. Incremental building aid refers to state building aid to be received for projects approved by the state in the future.

Both confirmed and incremental building aid are the property of the TFA and are pledged to the bonds. However, the ABT considers only confirmed building aid. In order for additional bonds to be issued, confirmed building aid payable in the fiscal year preceding each year in which bonds are scheduled to be outstanding must be at least 1x debt service in that year. Since state building aid for a given project is provided over 30 years, debt service coverage by confirmed building aid drops from 2.1x in fiscal 2018 to 1.1x in fiscal 2036. Fitch expects that the incremental building aid generated by the city's ongoing education capital program will result in substantially higher actual coverage in the out years. The base reimbursement rate for education projects in the city is projected at about 45% in fiscal 2018, and the TFA receives all building aid regardless of whether the project is financed with TFA building aid revenue bonds or through a different financing mechanism.

State building aid revenues are retained for debt service each year when the amount of building aid left to be received before the end of the city's fiscal year equals 110% of the debt service payable on the building aid revenue bonds in the following city fiscal year. Although the state's fiscal year runs from April–March, the state budgets education aid, which includes building aid, based on the city's fiscal/school year (July–June). The retention mechanism is likely to trap building aid in the March through June period for debt service payments in the following July and January. Building aid that is not required to be retained flows to the city. Although in the last recession there were declines in education aid paid by the state to the city as well as delays in the timing of education aid payments, building aid continued to increase.

Subordination to Pre-2007 TFA Future Tax-Secured Bonds

Pursuant to the TFA indenture, since building aid is TFA revenue it must be available first to TFA future tax-secured bonds issued prior to the first issuance of building aid revenue bonds in fiscal 2007. Given the very strong coverage that the pledged personal income and sales tax revenues provide for future tax-secured bonds, it is very unlikely that building aid would ever be needed for this purpose. Only $833 million in TFA future tax-secured debt remains outstanding from before the first issuance of building aid revenue bonds. TFA future tax-secured bonds sold after the date of the initial issuance of the building aid bonds, which currently totals $33.4 billion, have no claim on building aid.

In addition to previously outstanding TFA future tax-secured bonds, the payment of building aid is also subject and subordinate to certain other limited prior statutory and state constitutional claims on education aid, of which building aid is a part. Fitch does not believe that these will impair the ability to pay debt service. Holders of the TFA building aid revenue bonds benefit from statutory covenants in the original TFA act prohibiting action that would impair bondholders and the bankruptcy-remote nature of the issuer. However, since the pledged revenue stream requires annual state appropriation, the bondholders do not enjoy the same insulation from government operations that is a key factor in the 'AAA' rating of the TFA future tax-secured bonds.

Credit Quality of New York State

New York State's 'AA+' IDR reflects its considerable economic resources, solid economic performance, strong revenue growth prospects, low liability burden, very strong ability to control the budget and responsive budget management. The state is in a materially improved position to address future economic and revenue cyclicality relative to past experience, in Fitch's view, due to budget management improvements.

For more information on the state's general credit, see “Fitch Rates New York State's $215MM GO Bonds 'AA+'; Outlook Stable,” dated March 2018, available on Fitch’s website at www.fitchratings.com.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.